



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN 2039 (1951)

January 12, 1990

- SUBJECT: Processing Problems Related To Shared Appreciation Write Down (3R) and Net Recovery Buyout (3Q) Transactions.

TO: State Directors, District Directors and
County Supervisors

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is assist the field offices in the correct transaction processing for problems related to Shared Appreciation Write Down (3R) and Net Recovery Buyout (3Q). The outcome is to ensure that Farmer Programs Loan Servicing actions are consistent and processed properly.

COMPARISON WITH PREVIOUS AN:

This AN supplements FmHA AN. No. 1974(1951), Agricultural Credit Act of 1987 - Finance Office Interim Transaction Processing Guidance, dated August 29, 1989.

IMPLEMENTATION RESPONSIBILITIES:

IN ORDER FOR WRITE DOWNS AND BUYOUTS TO BE PROCESSED CORRECTLY THROUGH THE AUTOMATED ACCOUNTING SYSTEM, THE PROJECTED CLOSING DATE IN DALR\$, THE ACTUAL CLOSING DATE, AND THE DATE OF THE NET RECOVERY RECAPTURE AGREEMENT OR SHARED APPRECIATION AGREEMENT MUST BE THE SAME. FOR PURPOSES OF PROCESSING THESE TRANSACTIONS, THE CLOSING DATE IS THE EFFECTIVE DATE. ALL LOANS REAMORTIZED OR RESCHEDULED THAT ARE ASSOCIATED WITH A SHARED APPRECIATION AGREEMENT, MUST HAVE THE SAME DATE AS THE EFFECTIVE DATE OF THE SHARED APPRECIATION AGREEMENT.

1. Effective Date Of Writedown.

The closing date projected in DALR\$, the date of the 1M transaction, the Shared Appreciation Agreement, and the actual closing date must be the same date which is identified as the EFFECTIVE DATE. Write down cases that were not closed on the

EXPIRATION DATE: September 30, 1990

FILING INSTRUCTIONS:
Preceding FmHA
Instructions 1951-S



projected effective date of DALR\$ will need to be submitted to the loan servicing teams in the Finance Office. All associated reamortization and rescheduled transactions coded 1M, New Rates and Terms (not including deferrals), must be processed prior to the information being submitted to the Finance Office for corrections. Information to be submitted to the loan servicing team should include a copy of Exhibit D to FmHA Instruction 1951-S titled, Shared Appreciation Agreement, page 1 of the DALR\$ Summary, and Attachment 1 of FmHA AN 1934(1951).

2. Rescheduling and Reamortization Related to Shared Appreciation Write Down.

The 1M transaction, New Rates and Terms, MUST be processed FOR THE FULL AMOUNT before the 3R transaction, i.e. Total Payoff Field (TPOF) on the Account Information (AI) status screen as of the effective date of the 3R transaction. The Assumption Code (WASC) on the 1M detail screen MUST be 1 (Entire Debt). The 3R transaction will write down the loan to the amount specified by DALR\$. It is necessary to process a 1M transaction for all loans listed on the 3R transaction even if the 3R transaction writes the loan down to zero.

When manuscripting multiple 1M transactions, SEQUENCING IS REQUIRED. The installment amount must reflect the installment amount due after the write down is processed.

3. Effective Date For Net Recovery Buyout.

The closing date projected in the DALR\$ program, the date of the Buyout Agreement, and the actual closing date must be the same date which is identified as the EFFECTIVE DATE. Buyout cases that were NOT CLOSED on the projected effective date of DALR\$ can be processed in the field offices, but will need to have additional accrued interest added to the write off amount. The additional amount can be obtained by manually accruing interest through the effective date. From the TPOF on the AI status screen subtract principal plus interest before servicing on DALR\$, and add this amount to the amount of write off secured by real estate or amount of write off not secured by real estate on the 3Q transaction. Your calculations must be attached to the existing DALR\$ printout and the appropriate documentation made in the running record.

4. Rescheduling of Continuation Loans.

The automated accounting system will NOW permit processing of rescheduling of farmer program continuation loans made to

delinquent farm borrowers. These loans have an original fund code 44, and original kind code 04. If the rescheduling is for longer than one year, the kind code must be changed to 01 (General), or 03 (Limited Resource).

5. Reamortization of Actual Loss Loans.

The automated accounting system will NOW permit subtitle A Emergency Actual Loss Loans where real estate was taken as basic security to be reamortized for a repayment period up to 40 years from the date of the original note. These loans have a fund code 43 and kind code 21.

6. Restructuring of Partially Set-Aside Loans.

This is to clarify that debt set-aside must be cancelled if a borrower receives write down, or write off. We are aware that some offices have not cancelled debt set-aside before processing debt write off, or debt write down. FmHA Instruction 1951.909(e)(3)(vi) states that if a borrower requests a deferral for a loan that has a portion of the debt set-aside, the set-aside portion will be cancelled at the time the deferral is granted. The borrower must agree in writing to the cancellation of the debt set-aside if the deferral is approved. FmHA Instruction 1951.909(e)(5)(v) states that the borrower must agree in writing to the cancellation of a fully or partially set-aside portion of the loan(s) if a write down is approved. If a deferral and/or write down is provided, the entire set-aside must be cancelled.

If the non set-aside portion of a partially set-aside loan was incorrectly deferred or written down and the servicing action is CLOSED, information will need to be held in the County Office until further notice. The automated accounting system cannot process these incorrect transactions at the present time.

If the servicing action has NOT BEEN CLOSED and the non set-aside portion is calculated to be written down or deferred, then DALRS will need to be rerun per Section 1951.909. The debt set-aside agreement will need to be cancelled before the writedown can be closed.

7. Cancellation of A Fully Set-Aside Loan.

If an account has an active debt set-aside in effect, it will be necessary for the field office to send documentation needed to

cancel the set aside to the Finance Office. The borrower must agree in writing to the cancellation of the debt set-aside. After the debt set-aside has been cancelled by the Finance Office, the writeoff or writedown can then be processed by the County Office.

8. Cases Not Yet Closed Where Payments Were Held in Suspense Prior to Running DALR\$.

A. If you have submitted a payment for processing to an account that has a 1951-S flag, remove the flag and contact your team in the Finance Office. The Finance Office will apply the payment to the loan(s) you specify as outlined in FmHA Instruction 1951-A. The 1951-S flag should then be reapplied by the field office. Obtain new status information from the AI status screen to rerun DALR\$.

B. If you have not yet submitted a payment for processing, and wish to do so, remove the 1951-S flag and submit payment for processing. After the payment has been applied, the field should then reapply the 1951-S flag and obtain new status information for input into DALR\$.

C. If you have a payment (estimates of payments must not be used) that needs to be applied before servicing with the DALR\$ program and time does not permit following procedure A. or B., compute the payment distribution, accruing interest through the effective date of restructuring, as follows:

1. Pay interest on the unamortized advance (UNIA on the AI screen).
2. Pay principle on the unamortized advance (UNPA on the AI screen).
3. Pay interest on the note account; this includes deferred, capitalized, and noncapitalized (QUIN minus UNIA on the AI screen).
4. Pay principal on the note account (QUPR minus UNPA on the AI screen).

Note: If applicable, payment distribution should be made to Operating Type Credit (OTC) cost items first. This procedure should only be followed if it is necessary to meet the time frame for DALR\$.

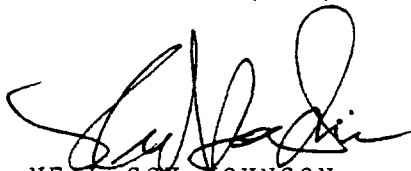
9. Payments Held in Suspense For 3R Transactions Where the Servicing Action Is Closed, And Payments Were Not Figured In DALR\$.

If a transaction is already closed and a payment was received prior to the effective date and was not included in DALR\$, that payment will be applied to the new restructured account as of the transaction closing date.

10. Continuation Loans and Net Recovery Buy Out.

When processed, a 3Q transaction will writeoff the borrower's loans and record the equity recapture. If you have a case where a continuation loan was made to a delinquent borrower, then the borrower bought out his loans at net recovery value, the crop assets and/or loan funds in the supervised bank account should have been included as an asset in the net recovery value calculations. These assets would be included in the "other" net recovery value screen in DALR\$. The continuation loan will be written off when the Net Recovery Buyout transaction is processed.

If you have any questions contact the User Training Support Section in the Finance Office at FTS 262-6347 or commercial (314) 539-6347, or contact Ann Eggleston of Farmer Programs Loan Servicing and Property Management Division, at FTS 475-4009, or commercial (202) 475-4009.



NEAL SOX JOHNSON
Acting Administrator

Sent Time Delay Option to States at 8:30 am on 1/18; to Districts at 10:30 am on 1/18; and Counties at 12:30 pm on 1/18 by ASD.